Middlemen

Who They Are and How They Operate

BY PAUL D. CONVERSE

LESSON B

The American Institute of Agriculture

MIDDLEMEN
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By PAUL D. CONVERSE
Professor of Commerce, University of Pittsburgh

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LESSON B

"Every Lesson by a National Authority"

Confidential Edition
Issued for Members

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THE AMERICAN INSTITUTE OF AGRICULTURE
CHICAGO

THE MAN WHO CONDUCTS THIS LESSON

Prof. Paul D. Converse

One of the few men of the United States who has had the opportunity to familiarize himself with almost every phase of middlemen activities is Prof. Paul D. Converse, head of the Department of Commerce of the University of Pittsburgh.

Prof. Converse has had experience, not only as a teacher of marketing in general, but also as an investigator employed by the Federal Trade Commission. In this work he had an opportunity to investigate the services performed by middlemen of all classes. In this work, he studied all the details of their business.

As an investigator, he was given the privilege of examining the books of many middlemen concerns. He saw the middlemen operations from the inside, as well as the outside. He had the authority of the United States back of him in getting every detail in this investigation. Thus, he secured facts that would not be open to others at the time.

It is true that many of these facts have been made public in the reports of the Federal Trade Commission, of which reports Prof. Converse was a

joint author. However, many impressions and many facts could not be appropriately published in these reports.

Prof. Converse has the additional qualification of having been a successful teacher of advanced sudents since 1913. He has served in the Washington and Lee University, and in the University of Pittsburgh continuously since 1913, with the exception of the time he spent as an investigator for the Federal Trade Commission.

Not only has he been successful in personally teaching thousands of college students, but he has prepared one of the few comprehensive text books on the subject of marketing. His book, "Marketing Methods and Policies" was published in 1921.

With this experience, it was exceedingly fortunate that The American Institute of Agriculture was able to secure Prof. Converse to prepare this, one of the most difficult lessons in your course to prepare.

SUMMARY OF PROFESSOR CONVERSE'S TRAINING AND EXPERIENCE

EXPERIENCE: Head, Department of Commerce, University of Pittsburgh, 1919-

Professor of Commerce, University of Pittsburgh, 1921-

Assistant Professor of Commerce, University of Pittsburgh, 1918- 21

Instructor, University of Pittsburgh, 1915-18

Instructor, Washington and Lee University, 1913-15

Investigator, Federal Trade Commission on canned foods, canned salmon, perishable foods, and farm implements, 1917-19

Examiner in charge Canned Salmon Investigation, Federal Trade Commission, 1918

Assistant Examiner in charge of the Farm Operating Equipment Investigation, Federal Trade Commission, 1919

MEMBER: American Economic Association; Pittsburgh Economic Club; American Association of College Professors

AUTHOR: ''Marketing Methods and Policies''; government reports and various articles; joint author of the following reports of the Federal Trade Commission:

Canned Foods—Fruits & Vegetables, 1918
Canned Foods—Canned Salmon, 1919
Farm Operating Equipment, 1920

STUDENT: M. A., Washington and Lee University, 1914; Columbia University; University of Wisconsin

HOW TO STUDY THIS LESSON

Don't attempt to study Lesson B until you are sure you have mastered Lesson A. And don't read this lesson until you have answered to your own satisfaction, all of the questions sent you with Lesson A.

Maintain an Open Mind

Be sure you study this lesson with an open mind. If you have any prejudice either for or against so-called "middlemen," forget that, temporarily. After you have mastered this lesson, that prejudice will either be a firm conviction based on facts you find here, or else it will be replaced by a firm conviction on which you can successfully argue with anyone. The facts of the middlemen situation are presented here concretely and completely.

Try to imagine as you study, what the condition would be without their service. Think of the service rather than the man. Consider the possibility of a farmers' cooperative performing the service. If the service is necessary, then we must have someone to perform it. If the man in question does not perform the service satisfactorily, then it's up to those of us who have products to sell to find someone else to perform that service.

Remember that middlemen are in business because someone is willing to pay them for the service they perform. It is true that many of them have suggested the service to producers or to consumers, but they would not be able to perform the service profitably if it were not for the fact that someone accepted their suggestion and was willing to pay them for their work.

Argue the Subject with Your Friends

You probably have some friends who believe that middlemen should be eliminated. Or you may have someone who believes that all middlemen are necessary and are performing their services admirably. Whichever side you are prepared to take when you have finished with this lesson, should be argued with this person.

Arguments bring out a lot of points that cannot be brought out in print. This lesson provides the facts that will arm you for any argument on middlemen. If, with these facts at your command, you cannot win the debate, you can be fairly certain that you have not mastered the lesson. Go back to it again, then, and find out what you didn't get before.

Discuss the Subject With Local Business Men

Talk over the facts brought out in this lesson with your county agent. Ask him how cooperatives perform middlemen services.

Then go to your banker and ask him about certain facts, especially the financing. Then talk with other business men.

Your druggist knows that he would have difficulty in stocking his store without jobbers and wholesalers.

Your grocer knows that he would have much less time to devote to filling your orders if he had to buy direct from the producer all of the products he handles.

Your hardware man knows that he could not possibly collect the several thousand different items he handles if it were not for the help of certain middlemen.

Talk with these merchants about the middlemen proposition. Give them your ideas, and they will give you theirs.

Then talk with men who are handling those lines of merchandise that are supplied to them direct by manufacturers. Some automobile dealers get their supplies from factory branches. Many farm implement dealers benefit by the same system. By talking with these men, you will get both sides of the proposition and will be better able to understand the real middlemen situation.

Study One Part at a Time

The study outline with this lesson will help you in your study. It shows you how the lesson is divided into different parts. These parts, of course, have a certain connection with each other. But this

division will enable you to master a part of the lesson at a time.

When you have finished with the lesson, you ought to have not only a good idea of middlemen and the services they perform, but you ought to have at your tongue's end the names of the various classes of middlemen, and you ought to be able to explain the different services performed by each.

STUDY OUTLINE OF LESSON B

MIDDLEMEN -- WHO THEY ARE AND HOW THEY OPERATE

STUDY OUTLINE--(Continued)

STUDY OUTLINE--(Continued)

INTRODUCTION

In Lesson A you learned the services that must be performed upon most farm products before they are finally purchased by the ultimate consumer. Now you will learn who performs those services and why certain men perform certain services.

As you studied Lesson A, certain questions came up in your mind. You wondered, perhaps, why it is that there are so many middlemen.

You probably wondered why one middleman doesn't perform all of the nine services.

It probably occurred to you that if such were the case, this one middleman would not expect to make nearly so much profit as is necessary when nine different men perform nine different services in the course of marketing.

These questions, and many others, will be answered in this lesson, for this lesson tells Why, as well as How.

MIDDLEMEN

WHO THEY ARE AND HOW THEY OPERATE

By PAUL D. CONVERSE

Middlemen Unpopular

Perhaps no group of people has been so much maligned in recent years as the middlemen. It has been said that there are too many middlemen; that many of them are speculators, pure and simple; that they are inefficient; that they are avaricious profiteers; and that they carry on their businesses at too heavy expense to both producers and consumers.

Some time ago the writer had a discussion with a very good farmer friend who made substantially all the accusations made above and others thrown in for good measure. To hear him talk, you would have thought that all middlemen should have been shot at sunrise, if not sooner.

It is clearly unfair to condemn anyone without hearing all sides of the case. Yet this is just what this friend was doing, for it was evident that he had made no particular study of the marketing machinery and had a very hazy idea of who the various middlemen are and how they carry on their work.

It is obviously impossible to make an intelligent criticism of something that we do not understand in principle and to some extent in detail. Furthermore this friend's criticism was 100% destructive. Constructive criticism is an excellent thing, but destructive criticism generally is worse than useless.

So I asked my friend why he didn't do something to better conditions, something constructive. I sug-

gested that he might start by getting the farmers in his county together and help to organize a cooperative enterprise to aid in the marketing of some of their products. To this he replied that he guessed he didn't want to do anything except to let off steam by "cussing."

Purpose of This Lesson

That's the trouble with too many of us - we don't like conditions but we won't exert ourselves to better them. Another fault is that we are too prone to condemn things that we do not understand.

It is the purpose of this lesson to show who the middlemen are, what functions they perform, and how they carry on their work. It is not its purpose to either justify or condemn the middlemen but simply to show something of their operations. It is hoped that the description contained in this lesson will help you to make more constructive criticism of the existing marketing machinery.

PRINCIPAL CLASSES OF MIDDLEMEN

The principal classes of middlemen are: retailers, wholesalers, brokers, and country shippers.

Retailers

The retailers are the most numerous and also the best known class of middlemen. Every reader is familiar with one or more types of retail stores. The cross roads store, the general store, the farmers' cooperative store, the mail order house, the large city department store, the grocery store, the hardware store, the dry goods store, and the soda fountain are all retailers and hence all middlemen.

The retailer is ordinarily the middleman who exacts the largest margin for his services. If we were to condemn middlemen because of the margin taken for the handling of goods, then the retailers

would come in for the greatest condemnation. Yet, as a matter of fact, the retailers are probably the least condemned of any class of middlemen because most of us are fairly familiar with their work.

Wholesalers

The wholesalers are less known to the public. They comprise in a general way middlemen, known as: wholesalers, car-lot receivers, car-lot wholesalers, jobbers, and commission merchants.

As a rule, a wholesaler has a warehouse where large quantities of goods are received and stored. The warehouses do not need show cases and the other methods of displaying goods used by retailers.

They, however, often have more or less elaborate sample rooms, where samples of goods are displayed.

As a rule, a wholesaler has a force of traveling salesmen who call upon the retailers or smaller wholesalers (jobbers) to solicit business. The goods are then delivered to the buyers either by truck, boat, or railroad.

There are some wholesalers who deal only in carloads of goods. Such wholesalers do not need warehouses. They conduct their businesses from rented offices.

Brokers

Under the general classification of brokers, may be included: brokers, sales agents, selling houses, manufacturers' representatives, and purchasing agencies. The broker is ordinarily an independent agent whose purpose is to sell (or buy) goods. He is paid a commission in place of a salary, and is an agent and not a hired employee.

His chief function is to sell goods. A large and successful broker may have a large suite of offices with several employees. The smaller broker, on the other hand, frequently rents only desk room in some-

body's office. Still smaller brokers have no office at all outside of their homes.

Country Shippers

Farmers' cooperative exchanges, country elevators, car-lot shippers, local merchants, live stock buyers, or representatives of car-lot wholesalers may all act as country shippers. The farmers through their cooperative organizations thus become middlemen.

The chief functions of the country shippers are to buy goods from various producers, combine the goods into carloads, and sell them to receivers in the distributing or consuming markets.

Manufacturers and Processers

Factories such as flour mills, cotton mills, woolen mills, packing houses, and tobacco factories also perform the services of middlemen. They have purchasing departments to secure raw materials, and sales departments to dispose of their finished products. They, however, change the form of the goods handled and so are thought of primarily as producers rather than as middlemen.

The foregoing paragraphs have presented a brief sketch of the four chief classes of middlemen. This was done to help you visualize the middlemen as they are discussed on the following pages.

In these pages you will find a somewhat fuller discussion of the chief types of middlemen - who they are, how they operate, and what services they perform. We shall, after showing the need for middlemen, consider them in the approximate order in which they handle the goods between the farmer and the consumer.

HOW MIDDLEMEN MEET IMPORTANT NEEDS

It is true that in some instances the services of middlemen are not needed in getting goods from the producer to the consumer. For example, if Mrs. Jones has a neighbor who keeps hens she may visit this neighbor two or three times a week to buy her eggs. Or the neighbor may carry her eggs to nearby purchasers.

But if Mrs. Jones lives in a city, it may be impossible for her to make a trip into the country every time she needs a dozen eggs.

On the other hand, the producer probably cannot deliver the eggs to distant consumers. Even if the eggs are sold within a few miles of the place where they are produced, it may take so much time for the producer to deliver the eggs to the consumers, that it would be more profitable to sell them at a lower price to a local buyer (middleman) than to peddle them from house to house.

A good illustration of how farmers generally, hesitate to sell to housewives, is seen in cities having public markets. Many farmers prefer to sell their produce at wholesale rather than take the time to sell it to the housewives at retail on the markets.

Egg Prices Would Be Ruinous in Summer Without Middlemen Services

Again, in the spring the hens lay more eggs than are wanted at once for food. These eggs can be kept in cold storage plants until the following winter when few hens are laying. Neither the individual producer nor consumer, however, has or needs enough eggs to make possible their economical storage. Hence some middlemen are necessary who will buy large quantities of eggs and place them in storage. While this type of middleman service is difficult for the individual farmer, it is possible and in many cases

entirely practical for farmers to store eggs in cooperation with other farmers.

Why Farmers Buy But Little Direct From Manufacturers

What is true of eggs, is true of practically every commodity. The farmer cannot leave his farm to visit the soap factory, shoe factory, slaughter house, cheese factory, nail mill, plow works, binder twine factory, and all the other factories to secure the goods which he desires for use in his home or on the farm. That is why he patronizes the local store which will supply him with hundreds of articles in small quantities at the time he wants them.

It is true that he might order many of these articles by mail from the factories or from other farmers in other parts of the country. He would, however, need to order a long time before the articles were needed, - a very difficult matter. It would greatly increase the selling expenses of the manufacturers and the buying expenses of the farmers. It would involve delays in exchanging goods or making adjustments and would greatly limit the sale of goods on credit. For these reasons, the quantity of goods sold by mail is limited and a large part of such goods are sold by "mail order houses" or merchants and not direct to the consumers by the manufacturers.

Producer and Consumer Must Be Near for Direct Selling

It is evident from these few examples, that direct marketing is only possible when consumers and producers are close together and when supply and demand can be adjusted to each other.

When goods must be transported for considerable distances or stored for long periods, especially if special facilities are necessary for storage, middlemen are indispensable. Ordering by mail with delivery by freight, or parcel post, furnishes a

minor exception to this statement. Here again, however, farmers may organize an association and perform the middlemen services themselves.

Can Goods Be Marketed Economically Without Wholesalers?

All middlemen except the retailer might be dispensed with in the sale of manufactured goods if the manufacturers would do the wholesaling themselves, having their salesmen call on retailers.

But the manufacturers would then have to build warehouses at convenient points all over the country and deliver the goods to the retailers in small quantities as needed by them.

It is doubtful if such a system would reduce marketing costs because the selling and warehousing services would almost surely be as much or more expensive when performed by the manufacturers than when performed by the wholesalers, for the simple reason that one wholesaler now sells the products of a large number, perhaps several hundred.

It would probably be impossible for any but large manufacturers to perform these services over any considerable part of the United States.

Tendency Toward Direct Relations Between Manufacturer and Retailer

There is at the present time a tendency for large manufacturing concerns to use only the retail dealers in the distribution of their goods. Examples may be found in the distribution methods used by the Ford Motor Co., by Proctor and Gamble, and by many large shoe manufacturers. There is also a tendency for large retail organizations, such as chain stores, department stores, and mail-order houses, to perform the wholesaler's functions themselves and to buy direct from the manufacturers or even to enter the manufacturing field. How far reaching will be this movement is difficult to predict, but farmers can

well afford to study these developments for they indicate similar possibilities for farmers marketing organizations.

Farmers Seldom Profit by Selling Direct to Retailers

Farming must always be made up of millions of men, each with products to sell. Think of the confusion if each of our six million farmers were to attempt to sell their products direct to consumers or retailers!

The organization of large cooperative selling associations might make it possible for these farmer-owned companies to do the work of middlemen. To date, however, most of such organizations have chosen to sell to the established wholesale dealers rather than to attempt to sell direct to the small retailers.

NINE IMPORTANT SERVICE AGENCIES

You have learned how middlemen meet important needs in marketing. Now let us go more into detail as to who the various middlemen are and what services are performed by each.

STUDY HELP—(Editor's Note)

You will remember that Dr. Taylor in Lesson A gave a list of important services that are performed upon many agricultural products between the time they leave the farm and the time they arrive at the home where they are to be consumed. This list of services is repeated here to aid your memory:

IMPORTANT MARKETING SERVICES

1. Standardization and Grading
2. Packing
3. Assembling
4. Storage
5. Transportation
6. Financing
7. Risk-taking
8. Selling
9. Dispersing or Dividing

There are nine classes of middlemen who commonly perform one or more of these important services. The list of these middlemen agencies follows:

IMPORTANT MIDDLEMEN

1. Local buyers
2. Car-lot shippers
3. Brokers
4. Commission men
5. Auction companies
6. Car-lot wholesalers
7. Jobbers
8. Retail Dealers
9. Transportation agencies

WHICH MIDDLEMEN PERFORM THE VARIOUS SERVICES

In this section of Lesson B you are to learn how these services are divided between the various middlemen. It will be of value to you first to consider the following tabulation of these nine middlemen and the services they perform. The numbers in this tabulation correspond to the numbers in the two lists just given.

You must remember in studying this tabulation that not all local buyers perform all of the nine services listed under the head of "local buyer", but local buyers, under some conditions, do perform one or more of these nine services.

In the same way, the other middlemen may perform one or more of the services listed in this tabulation.

WHO PERFORM THE 9 ESSENTIAL MARKETING SERVICES

1. LOCAL BUYERS
   1. Standardization and Grading
   2. Packing
   3. Assembling
   4. Storage
   5. Transportation
   6. Financing
   7. Risk-taking
   8. Selling

2. CAR-LOT SHIPPERS
   1. Standardization and Grading
   2. Packing
   3. Assembling
   5. Transportation
   6. Financing
   7. Risk-taking
   8. Selling

3. BROKERS
   6. Financing
   8. Selling
   9. Dispersing or Dividing

4. COMMISSION MEN
   1. Standardization and Grading
   5. Transportation
   8. Selling
   9. Dispersing or Dividing

5. AUCTION COMPANIES
   6. Financing
   8. Selling
   9. Dispersing or Dividing

6. 6AR-LOT WHOLESALERS
   1. Standardization and Grading
   3. Assembling
   4. Storage
   5. Transportation
   6. Financing
   7. Risk-taking
   8. Selling
   9. Dispersing or Dividing

7. JOBBERS
   4. Storage
   5. Transportation
   6. Financing
   7. Risk-taking
   8. Selling
   9. Dispersing or Dividing

8. RETAIL DEALERS
   4. Storage
   5. Transportation
   6. Financing
   7. Risk-taking
   8. Selling
   9. Dispersing or Dividing

9. TRANSPORTATION AGENCIES
   4. Storage
   5. Transportation
   7. Risk-taking

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1. Local Buyers

You have 50 bushels of apples. A traveler in a city 100 miles away is hungry and wishes to buy an apple. But how are you going to find enough hungry travelers to eat 50 bushels of apples? What would

it cost you per apple if you mailed each one separately to a different person? You would have to consider the postage, the cost of the package, and the labor of packing.

To be shipped economically, farm products, as a rule, must be shipped in car lots. Very few farmers are able to provide a full car of any given product at one time, unless it be grain. That is why farmers have found it necessary to make use of the services of middlemen, who buy products from many farmers and make up carloads for shipment.

Marketing Services Performed by Local Buyers - The local buyer or car-lot shipper is the one who buys direct from the farmer in most cases. The local buyer generally pays cash to the farmer, and performs several necessary services in marketing, including: financing, assembling, grading, storage, packing, transportation, risk-taking, and selling.

As a rule, local buyers are either country storekeepers, country elevator operators, live stock buyers, car-lot shippers, car-lot receivers, farmers' cooperative associations, or merchants who specialize in buying one or more products. Car-lot receivers (or wholesalers) often send their representatives into the growing sections during the shipping season, and thus become local buyers.

Live stock shipping associations ordinarily perform only the service of assembling, because these associations seldom pay for the live stock until the returns are received from the terminal market. Neither do they do very much grading (the work of standardizing).

Country elevator operators not only assemble grain, but usually grade it and store it. (You will remember that you learned in Lesson A that these services that are being mentioned are necessary to

put farm products into the form in which they are most acceptable to the ultimate consumer.)

Local fruit growers' exchanges not only do the assembling work, but often standardize, grade, pack, and sometimes store the fruit. Some of them also process the fruit to put it into more saleable condition.

<u>The Necessity for Local Buyers</u>--Many farmers' cooperative associations are laying more emphasis on storing their products in order to properly feed the markets and realize better prices for their members. This is notably true of the associations handling sweet potatoes.

Local buyers not only serve better in assembling goods, but often sell them to better advantage than could be done by the individual farmers. This is because they keep in closer touch with terminal markets and with market conditions. The larger the organization, the more able it is to keep up with market conditions and prices. This is one of the chief arguments in favor of forming large cooperative associations.

2. Car-lot Shippers

Most local buyers are car-lot shippers. In the case of goods bought in small quantities, however, the local buyers may be unable to accumulate car-lots. They are then forced to sell to other middlemen who assemble the goods of several local buyers into carloads.

<u>Necessity for Car-lot Shippers</u>--Car-lot shippers are important in the marketing of eggs. Eggs must be shipped while fresh. Hence many local buyers are unable to hold the eggs long enough to secure car loads.

Car-lot shippers, as separate from local buyers, are to be found handling products which are produced in small quantities by individual farmers. For

example, in a wool-growing community, the local buyers can easily assemble car lots, while in a community having few sheep, the local buyer may have to sell to car-lot shippers.

3. Brokers

A broker may be defined as an agent who negotiates contracts for the purchase or sale of goods ordinarily without having possession of the goods. He has no control over the goods and merely negotiates the sale. He finds the buyer, gets an offer which he accepts or rejects or submits it to the owner of the goods for acceptance or rejection. He is paid on a commission basis--either a percentage of the sale price or a flat rate per unit.

As soon as "brokers" are mentioned, some people think of stock brokers and the stock exchange. We are not, however, concerned here with stock brokers. We are interested in brokers who handle goods.

Such brokers are sometimes called merchandise brokers. Merchandise brokers must not be confused with merchandising brokers. The latter are brokers who, in addition to their brokerage business, buy and sell goods on their own account.

In buying and selling their own goods, they are principals and not agents. Hence, in these transactions, they are not brokers. The term "merchandising broker" is, however, generally applied to persons who carry on both a brokerage and a buying and selling business.

What Brokers Charge--The broker is a specialized, independent, salesman who is paid on a commission basis. He performs a selling function. As he deals with large quantities and does not actually handle the goods, he performs this function very cheaply. The rates of commission vary with the goods handled and with the services performed. The actual rates generally vary from a fraction of 1% to 3% or 4% of the sale price.

A few common rates are: canned goods, 2% to 2 1/2%; eggs, 1/4 cent to 1/2 cent per dozen; butter, 1/8 to 1/2 cent a pound; apples, $15 a car; old potatoes, $10 a car; and grain, where the broker finances the transactions, 1/2 % to 1%. Sales agents generally receive higher rates than other brokers.

<u>Who Employ Brokers</u>--The shippers of country produce, whether country elevator, local buyer, carlot shipper, or farmers' cooperative association, may employ brokers to dispose of their goods in the large city markets. Many manufacturers employ brokers to dispose of their products. This is especially true of the smaller manufacturers.

<u>Services Performed by Brokers</u>--Brokers, being located at terminal markets, are in daily touch with market conditions and prices. A good broker is able to give his principal--i. e., the man for whom he sells--valuable information concerning the trend of prices, what price to accept, and the proper time to buy or sell. Many concerns employ brokers primarily for the advice and information obtained from them.

Some brokers help to finance their principals either by the loan of money, purchase of capital stock, endorsement of notes, guarantee of accounts, or advance payments on the shipment of goods.

Brokers are not supposed to handle goods, but in order to satisfy their principal, they sometimes receive goods and make delivery to the buyers. They also sometimes make collections and look after their principal's interests when goods are refused or when adjustments are necessary.

<u>The Necessity for Brokers</u>--Brokers exist primarily to perform a selling service. In addition, they often give information and advise, help to finance their principals and not infrequently look after the delivery of goods and the collection of

accounts. As they perform these services for a low rate of commission, many students regard them as desirable and efficent middlemen. One government commission, after a lengthy inquiry, reported that they were more firmly established and more desirable middlemen than were the wholesalers.

They have, however, been bitterly criticised for encouraging speculation and for persuading their principals to lower their prices in order that they might make sales and earn commissions.

Future of Brokerage Business--It is probably true that the merchandising business conducted by brokers is speculative. Some brokers also may encourage others to speculate. This practice is to be deprecated, but no other satisfactory method of getting the same service that brokers perform has been found.

4. Commission Merchants

A commission merchant is a person who receives goods belonging to another, for sale on a consignment basis. That is, he has control of the goods and when sold, must account to the owner for the proceeds of the sale.

Services Performed by Commission Men--The distinction between the commission merchant and the broker is that the commission merchant has the goods in his possession, delivers them to the buyer, and makes the collection while the broker merely negotiates the sale.

In actual practice, the same man may do both a brokerage and a commission business. In the grain markets, the dealers are often called "brokers," although much of their business is done on a consignment basis.

Farm products have been more generally sold on a commission basis than any other class of goods. So common has this practice been that wholesale dealers

in fruits and vegetables are still called "commission merchants," although most of them now do relatively little commission business.

At the present time, probably more grain and live stock are sold on a commission basis than any other classes of goods.

Reasons for Decline in Commission Business--There are many reasons for the decline in the commission business especially in the handling of perishable products. Perhaps the most important has been the fact that most goods have been consigned when there was a large supply of goods or a "glut" on the market.

Under such conditions, the farmers or local buyers often choose to ship to commission men rather than accept the low prices offered by the buyers at the shipping points. Under these conditions, low prices are to be expected, and goods sometimes sell for less than the freight charges. Such results naturally displease the shippers and cause a loss of confidence in this method of selling goods.

In the second place, commission men have been accused of many dishonest practices, such as false returns, sale of goods to themselves at low prices, false quotation of market prices, making unreasonable charges for extra expense, etc. The broker doesn't have as much opportunity for such dishonesty.

There have undoubtedly been many instances of unfair dealings and commission men do not deny that there have been crooks in the commission business, the same as in any other business. But they do claim that the average honesty of commission merchants is as high as that of any other class of business men.

The Commission Man's Side--They say that most shippers do not understand market conditions which, unfortunately, is largely true. They say that most goods are consigned when the market is glutted,

and that many of the consigned goods are of poor quality. This is due to the fact that farmers seldom grade what they ship. They say further that goods which cannot be satisfactorily sold otherwise, are consigned, which means that they are generally poorly graded, or packed by a grower who is unknown or who does not have the reputation for a high grade of goods.

Future of the Commission Business--Whether unfair practices on the part of the commission merchants, or the consigning of goods of poor quality or at inopportune times has been the chief cause, the fact remains that the commission business in fruits and vegetables, at least, has fallen into general disrepute.

It continues principally where the shippers have a fair degree of confidence in the commission merchants. This confidence may be based on reliable market reports as to the prices prevailing at the time of sale, or on frequent visits to the market by the shipper. Such visits will enable the buyer to check the prices reported by the commission man against prevailing prices, to see the condition in which his goods actually arrive, and to establish personal contact with the commission man.

Proposals to Revive Commission Business--Several suggestions have been made for reviving the commission business. Some states have passed laws regulating commission men, but such laws have done little to revive the industry.

One suggestion that seems worthy of careful consideration is that the government place in each important market, an agent to whom shippers may send their goods. This agent would turn the goods over to brokers, or commission men, or have them sold at auction and see that accurate returns were made to the shippers.

Commission charges vary with services performed and the nature of the goods handled. With grain, the usual rates are 3/4 of 1% to 1% of the selling price. In the case of produce, the rates are generally from 5% to 10%.

5. Auction Companies

Auction companies provide facilities for selling goods publicly by an auctioneer to the highest bidder. All classes of goods from antiques to live stock, from second-hand furniture to bankrupt railroads, from rare paintings to fresh fruit are sold at auction. The kind of auction sales that we want to consider briefly are those where farm products are sold to jobbers and retailers.

Services of Auctions--There are some 18 or 20 auctions in the United States where citrus and deciduous fruits are regularly sold. These auctions are nearly all located in the large cities of the East and Middle West. Their total sales run into the hundreds of millions of dollars annually.

Many people have been impressed by the efficiency of their operations. One or two auctioneers can, in a sale lasting only a few hours, dispose of 20 to 100 cars of fruit. In other words, one auctioneer can sell as many goods as a dozen or so men could sell at private sale in the same time.

Charges for Service--Most of this fruit is sold for a commission of from 1 1/2% to 2 1/2%.

Such facts as these make the auctions appear to be very efficient pieces of marketing machinery. It should be borne in mind, however, that the auction companies do not act as consignees of goods and it is, therefore, necessary for out-of-town shippers who desire to have their fruit sold at auction to have an employee, or a broker, look after their interests at the auction. A suggested reform is that auction companies should be subjected to public regu-

lation and be required to receive goods on consignment for sale at auction. This would make it unnecessary for the shippers to employ third persons.

Services Performed--The auctions perform principally a selling function, although some of them unload the goods from the cars and make delivery to the buyers' stores.

Influence on Prices--There is a difference of opinion as to just what influence auction sales have on prices. Some argue that they exaggerate the influence of supply and demand and lead to widely fluctuating prices.

Others argue that, since they give free play to the law of supply and demand, and since they give proper weight to each of these factors, they tend to stabilize prices. We do not now have enough information to enable us to determine which of these arguments is correct.

Who Use the Auction Service--The fruit auctions are used by growers' co-operative shipping associations, by large car-lot shippers, and privately owned distributing organizations, by car-lot receivers, and in fact by almost anyone who owns large quantities of the kinds of fruit handled and desires it sold at auction.

The Need and Future--In many ways, as pointed out above, the auctions appear to be efficient pieces of marketing machinery. There are many, however, who claim that we would be better off without them. They take a large amount of the buyers' time and many buyers would be glad to buy in a way that would save the time required to sit through the daily sales. In fact, some buyers employ brokers to attend the sales and buy for them. The auction method of selling seems to be growing. Two or three new fruit auctions have been opened during the last two years.

6. Car-lot Wholesalers

Car-lot wholesalers, or car-lot receivers as they are known in the produce trade, buy in car-lot quantities and sell either in car lots or in smaller quantities. They sell ordinarily to jobbers and retailers.

For example, in the Philadelphia produce trade, the car-lot receivers sell to the jobbers in lots of 20 to 100 units (boxes, crates, or barrels).

On the other hand, in Pittsburgh many of the car-lot receivers sell directly to retailers in lots as small as one unit.

How Car-lot Wholesalers Operate--The car-lot receivers may purchase their goods from brokers, country shippers, farmers' cooperative organizations, creameries, or producers. In fact, they very often send their buyers into the producing sections during the shipping seasons to buy from the farmers or local buyers. They sometimes help to finance the growers.

They may buy only for sale in the market where located or they may sell in the city offering the highest prices. For example, one man buys cars of fruit in California, "tramps" them east, and sends out "tramp" lists while they are "rolling."

That is, he ships the fruit, expecting to sell it while in transit, having the railroad deliver it to the city where it is sold. If not sold by the time the cars reach the diverting point, he has them delivered to his own city, where he sells them as best he can.

Some car-lot wholesalers deal only in one commodity or in one group of commodities. Others handle many articles. Altogether they handle many products--potatoes, fruits, butter and eggs, flour, cheese, lumber, coal, etc.

Some deal only in car-lots while others deal in smaller quantities. For example, in the distribution of flour, there are wholesalers who have no warehouses and who deal only in car-lots, while there are others who have warehouses and sell in less than car-lots. The latter supply jobbers and retailers, selling to them in lots as small as 10 or 20 barrels.

Services Similar to Those of Brokers--The operations of these wholesalers buying and selling only in car lots very closely resemble the operations of brokers. The distinction is one of the ownership of the goods rather than one of the method of conducting the business. The dealer owns the goods and is in business for a profit, while the broker does not have title to the goods and only earns a commission on his sales.

Cost of Doing Business--The car-lot wholesalers' cost of doing business varies with the average size of sale and the services performed. Those who buy and sell only in car lots commonly have expenses of less than 2% of sales. Those maintaining stores and selling in relatively small lots to jobbers or retailers commonly have expenses of 4% to 8% of sales.

7. Jobbers

In the general mercantile field, the term "jobber" is used interchangeably with "wholesaler." He is one who handles one article or an entire or complete line of goods such as groceries, hardware, or drugs. The jobber ordinarily buys from the manufacturers (often through brokers, or buying agents) and sells to the retail dealers, restaurants, hotels, etc.

He assembles goods from many different sources and has a warehouse where these goods are stored until sold to retailers. He has a sales force which solicits business from retailers.

Manufacturers have the option of selling to jobbers or of building up their own sales organization and selling to retailers direct.

The jobber also generally extends credit to retailers and it is this credit that makes the existence of many retailers possible.

A large jobber must carry many articles in stock. A large hardware jobber will carry 40,000 or more items in stock, counting sizes. The purchasing, warehousing, and shipping of such a varied line gives rise to many difficult problems.

In the produce trade the jobber operates between the car-lot receiver and the retailer. The car-lot receiver usually does not have sufficient storage or sales facilities to dole out to retailers in lots of two or three boxes. He prefers to sell in large lots (several dozen or a hundred or so crates, boxes or barrels) to the jobbers who are equipped to supply the retail trade. In other words produce jobbers buy in less than car-lot quantities and sell in small lots (as small as 1 crate, sack or barrel) to the retailers.

<u>Cost of Doing Business</u>--The jobber's cost of doing business varies with the kind and grade of goods handled and with the location of the store. The cost among wholesale grocers ordinarily varies from 6% to 12% of sales. The lower costs are found in the smaller towns and in stores handling staple goods. The higher costs are found in the larger cities and in stores handling high grade and fancy goods. The costs of handling hardware and drugs are higher than the cost of handling groceries.

<u>Services Performed by Jobbers</u>--The principal services performed by jobbers are:

1. Selling
2. Assembling goods from many sources
3. Warehousing or storage

4. Dividing large shipments into small lots and delivering them to retailers

5. Financing, principally in the form of credit extended to the retailers

6. Information given to retailers

The Future of the Jobbers--Many predictions have been made that jobbers would eventually be eliminated. Their existence is challenged from both sides. In the mercantile field the large manufacturers tend to establish their own branch houses and perform the jobbing functions themselves. Also as large retailing organizations develop, they tend to go over the heads of the jobbers and buy direct from the brokers or manufacturers.

In spite of all predictions, jobbers are still important in the distribution of many lines. They handle a very large part of the groceries and drugs, over 50% of the hardware, and over 40% of the shoes sold in the United States.

The tendency seems somewhat less pronounced in the distribution of farm products. There does, however, appear to be a tendency for more products to pass directly from the car-lot receiver or wholesaler to the retailer without the intervention of the jobber.

8. Retail Dealers

There are nearly a million retail stores in the United States and some two million people engaged in retailing.

Large and Small Stores--The large department stores, mail order houses, chain stores, and downtown city specialty stores may be contrasted with the small general and specialty stores.

The large stores are able to buy more cheaply than the small stores. With the exception of the chain stores, they generally carry a wider assortment of

goods and offer their customers a larger variety of goods to select from than do their small competitors. They can also afford to employ merchandising experts to work out efficient methods of conducting their businesses.

The small stores, on their part, very frequently have a lower cost of doing business. Wherever independent stores eliminate expensive services such as credit and delivery, and operate on the same basis as the chain stores, it has been found that they can usually do business on as low a cost as the chains. The only important advantage that the big stores have is their ability to buy their goods cheaper by buying in larger quantities direct from manufacturers.

In the same way, farmers have increased their buying power by having their cooperative organizations buy in large quantities.

Small Stores Most Numerous - The chain stores which combine large purchasing power and efficient operation, with the convenience of location enjoyed by the small stores, have had a phenomenal growth during the past 15 years.

The small stores are, however, still the predominating type and sell some 75% of the merchandise sold at retail in the United States. This can be explained very largely by the convenience of their locations. The retail stores exist primarily to supply us with goods when and where we want them. The small village and community stores have an advantage over the big stores in this respect.

Services Performed by Retailers - The retailers assemble goods from many different sources at places convenient to the public. They keep the goods until desired, and divide them into quantities to suit the household purchasers. In addition to this, they often sell to consumers on credit and deliver goods to their homes. Many retailers often perform a

service in introducing new goods and advising their customers in the selection of goods.

To summarize, they perform the following functions:

1. Assembling
2. Storing
3. Selling
4. Dispersing or Dividing
5. Financing
6. Transportation (delivery of goods)

Retailers are the most indispensable of middlemen. Their average efficiency is, however, very low. Our efforts should be directed toward increasing their efficiency rather than in trying to eliminate them.

HOW TO FIND THE RIGHT AGENCY TO HANDLE YOUR PRODUCTS

Whether you are going to sell to a local buyer, a car-lot shipper or a manufacturer, or whether you are going to sell through a broker or commission man, you want to be sure that the agency you select is capable and reliable.

It is true that there are men performing middlemen services who are not above sharp practices, the same as there are such men in all lines of business.

Sources of Information on Middlemen

You may be helped in selecting the right agencies by getting in touch with customers of theirs who have done considerable business with them, or by asking for information from your county agent, government men, or farmers' organizations that may have information of value to you.

Reliable dealers will be glad to supply you with the names of some of their oldest customers. Either a personal call upon these customers, or a letter

directed to them will probably get for you the valuable information you seek.

Your banker may be able to give you the information you want, because he learns from other farmers the satisfaction they have had by selling through certain agencies. Then too, he usually has credit rating books, which makes it possible for him to look up for you the financial standing of any business concern.

Farmers' Cooperatives Gather Facts About Middlemen

Some of the larger farmers' organizations have inaugurated a system of filing information regarding middlemen. If you have access to such records, you will probably find them more satisfactory than information from most any other source.

If you belong to an association that should be doing this work, but is not, it would certainly pay you to suggest that a file of this sort be inaugurated.

In selecting a commission man or broker, you wish to know, of course, not only of his financial and moral responsibility, but of his ability as a salesman. This, again, is best determined by communication with his customers. Some commission men have a better record for securing high prices than others. And this is probably due to the difference in sales ability between the two men.

HOW MANY MIDDLEMEN HANDLE VARIOUS PRODUCTS

There are no set routes by which agricultural products of any particular class always travel from producer to consumer. The same class of products may pass through the hands of one middleman or through the hands of half a dozen. However, it is quite common for most of the farmers in one section to sell any given product through approximately the same channel.

For example, most of the farmers in the vicinity of Madison, So. Dak., sell their grain to one or more of the nine local elevators there. On the other hand, most of the farmers in the vicinity of Plymouth, Wis., sell their milk to the cooperative cheese factory.

The grain marketed at Madison, So. Dak., is likely to pass through the hands of a number of other middlemen besides the local buyer. On the other hand, the cheese is likely to be sold by the cooperative association direct to a jobber in New York, who, in turn, sells it to retail dealers.

Most Products Are Owned by Several Middlemen Before Being Finally Consumed

It is quite common for a local grain elevator to ship its grain to Chicago to be sold either by a broker or by a commission man. The agent sells to a terminal elevator company, to a milling company, to an exporter, or to a speculator. The speculator may sell to a milling company, a terminal elevator company, or to an exporter.

In the same way, a local cash buyer of apples at Wenatchee, Wash., may sell those apples to a car-lot wholesaler in an eastern market, or he may put them into cold storage, or they may be shipped to England via the Panama Canal, or they may be sold in any one of several other locations.

It will probably be quite apparent to you that, as a rule, the farmer determines only the first middleman. He selects the man to whom he will sell. But he has nothing to say as to who will handle his products between that man and the ultimate consumer.

1. When No Middleman Is Involved

The shortest possible trade channel is found when goods pass directly from the producer to the consumer without the intervention of any middleman.

A considerable quantity of vegetables, fruits, and poultry products pass directly from the producer to the consumer. These products are sold by farmers to consumers and shipped by parcel post, sold on city markets, or peddled from house to house.

In the smaller towns and cities, local dairymen often operate their own wagons and supply milk directly to consumers. The expense involved by the duplication of wagons of different dairymen, even in small towns, often leads to the distribution of milk by a central distributing company.

Manufacturers Sell Direct to Consumers - Manufacturers with their own retail stores are technically selling direct to consumers. Such manufacturers, however, must build up retail organizations, invest capital, and meet all the problems met by independent retailers. For these reasons, manufacturers' retail stores may rightly be considered as middlemen.

Ice is often sold direct by the producer to the consumer.

Made to order clothes are sold by the maker to the wearer, but the raw material has previously been handled by several middlemen since leaving the farmers' hands as wool or cotton.

Raw materials, such as steel or tin plate, frequently are sold directly to the manufacturers of the finished product. Middlemen are, however, generally involved in getting the finished product to the ultimate consumers.

2. When One Middleman Handles the Product

Many goods pass through the hands of only one middleman between the producer and the consumer. This is true when the farmer sells his produce to a retail grocer or his milk to a milk distributing company.

Many manufacturers sell their goods direct to retailers. This is commonly true of such articles as the better grades of clothing and shoes. Manufacturers of a large line or a family of products, or of articles having a high unit value, are the most likely to do this.

Small, or little known manufacturers, or specialty (short line) manufacturers are very commonly unable to establish direct connections with retailers. This is true for the very simple reason that the expenses of their traveling salesmen would be too high in proportion to the value of the goods which they could sell.

Automobiles, coal, gasoline, and women's clothing are other examples of articles that often pass directly from the manufacturer to the retailer.

Many retailers now buy in large enough quantities to enable them to establish direct relations with manufacturers. This is often true of mail order houses, department stores, and chain stores.

Thus, the chain grocery store may buy in car lots and obtain as low prices as obtained by wholesale grocers, while the ordinary retail grocers buy their goods from wholesale dealers, and pay more. Some city grocers buy the entire production of eggs from one or more poultrymen. Others take all the butter a local dairyman can make.

3. Two Middlemen

Many goods pass through the hands of two middlemen between the producer and the consumer. This has been said to be the most typical trade channel, but it is doubtful if any one channel can be said to be the most typical.

This trade channel may be illustrated by the following tabulation:

Producer sells to - (or through)

1. Local buyer
   Car-lot shipper
   Broker
   Commission man
   Farmers Cooperative Association
   Processor or manufacturer
   Car-lot wholesaler
   who sells to -
2. Retail dealer

Manufactured goods often pass from the manufacturer to the wholesale dealer and from the latter to the retail dealer. This may be true of clothing, dry goods, shoes, hardware, farm implements, automobiles, coal, or groceries.

Very commonly, however, a broker or sales agent is found between the manufacturer and wholesaler. Some wholesale produce dealers send their own representatives into the growing districts to buy vegetables or fruits from farmers. When such a wholesaler sells to the retailer, only two middlemen are involved.

In some sections, farmers consign their produce to commission men who sell to retailers. This is true, for example, of a considerable quantity of local produce shipped to Philadelphia and Cleveland.

<u>Some Manufacturers Do Their Own Wholesaling</u> - Many manufacturers operate their own branch houses to perform the wholesale functions. These branch houses have selling organizations to solicit orders from the retailers and supply the goods to the retailers in the desired quantities.

This is a very common practice among farm implement manufacturers and meat packers. About 90% of the farm implements are sold to the retail dealers through manufacturers' branch houses and some 8% is sold through jobbers. In 1918, 27 farm implement

manufacturers had 282 branch houses. They also maintained 444 transfer stocks and sold to 140 jobbers.

Interstate slaughtering houses similarly had 1,327 branch houses of which 1,188 belonged to the so called "big five" (Armour, Swift, Morris, Wilson, and Cudahy).

Many other manufacturers operate their own branch houses. H. J. Heinz Co., for example, maintain 50 branches.

Perhaps such branches should be considered as parts of the parent organization. As these branches duplicate the facilities and services of the wholesale dealers they should, however, from an economic standpoint, be considered as middlemen.

4. Three Middlemen

Large quantities of goods pass through the hands of three middlemen between the producer and consumer. The producer sells to - (or through)

1. Local buyer
   Car-lot shipper
   Broker
   Commission man
   Farmers' cooperative association
   who sells to -
2. Wholesaler or jobber
   who sells to -
3. Retail dealer

Three middlemen are often involved in the distribution of fruits, vegetables, poultry, eggs, milk, groceries, hardware, and dry goods. These lines of merchandise commonly pass through the hands of a broker, a sales agent, or a buying agent between the producer, and the wholesaler. With groceries, the broker is the most common. With hardware, the buying agent is very generally used. With dry goods finished by the mill, a selling house or agent is often used.

Why Brokers Are Employed - Producers using brokers are often relatively small. Most of their capital and time is needed in production. They have little time to devote to marketing their goods. They are not experts in marketing. It is often cheaper for them to employ brokers or sales agents than to maintain sales organizations large enough to keep in constant touch with the wholesalers.

Not only is the broker's commission often less than the cost of maintaining a sales department, but the brokers are always on hand. If the manufacturer had only his own sales force, many sales would be lost due to the fact that a salesman was not in a particular town when the wholesaler was ready to buy.

The brokers and sales agents are also valuable for the information they give about market conditions, current prices, and the probable trend of prices.

Farm Produce - The local buyers of farm products, or the farmers cooperative associations, often sell their products to wholesale dealers. This is true of the California Fruit Growers Exchange in some cities. In other cities this Exchange has its goods sold through the fruit auctions.

In some cities, wholesale receivers sell to retailers, while in other cities they sell to so-called jobbers who supply retailers.

The exchange, the wholesaler, and the retailer make three ownerships.

5. Four Middlemen

Four middlemen not infrequently handle goods between the producer and the consumer. The producer sells to - (or through)

who sells to - (or through)

1. Local buyer
   Farmers' cooperative association
   Broker
   Sales agent

2. Auction company
   Commission man
   Car-lot wholesaler
   Car-lot shipper
   Processor or manufacturer
   Broker
     who sells to -
3. Jobber
     who sells to -
4. Retail dealer

The local buyer, or the farmers' cooperative association, may sell farm products through an auction or broker to wholesale dealers. Or they may sell to a car-lot receiver (wholesaler) who, in turn, sells in smaller quantities to jobbers.

In some cases, local buyers sell to car-lot shippers, who sell through a broker or directly to a car-lot wholesaler. This is a very common practice, for example, with eggs. Eggs are produced in small quantities on many farms. Their perishability prevents their storage for any length of time by either the farmer or local buyer.

For this reason, many of the local buyers are unable to buy a car load before the eggs must be shipped. If the city receiver sells direct to the retailer, then only four middlemen are involved in the distribution of the eggs.

Some manufacturers have their goods, often their entire outputs, sold by sales agents. As these agents do not have offices in every town, they very often engage brokers to sell the goods in other cities, paying them brokerage. Sales agents often aid in the sale of canned goods, cloth, and other staple goods produced by a large number of small plants.

<u>Flour Usually Follows Route No. 5.</u> - Flour, the wheat for which passes through two dealers in reaching the miller, commonly passes through two hands -

the wholesaler and retailer - after leaving the miller. This makes a total of four middlemen, aside from the miller, between the farmer and the housewife.

The importer often sells through brokers to inland wholesalers. This makes four middlemen in the United States - the importer; the broker; the wholesaler or jobber; and the retailer. In the case of print cloths, the mill may sell through a broker to a converter who has the cloth finished. Between the converter and consumer two or more middlemen may handle the cloth.

6. Five Middlemen

Five middlemen are involved in the distribution of many articles. In the case of eggs, for example, the (1.) local buyer may sell to a (2.) car-lot shipper who sells through a (3.) broker to a (4.) wholesale dealer. The latter supplies the (5.) retailers.

The (1.) local buyer, or farmers' cooperative association, may sell potatoes, apples, or other farm products through (2.) brokers to (3.) car-lot wholesalers. These wholesalers in some cities sell in less than carloads to (4.) jobbers. The latter supply the (5.) retailers, restaurants, etc., selling in lots as small as one package (box, barrel, or crate).

The wholesale receiver may sell on the auction to other wholesale dealers who supply the retailers. In either case, five middlemen are involved.

Flour may pass through five middlemen besides the miller - the (1.) country elevator, (2.) commission man, (3.) terminal elevator, (4.) wholesaler and (5.) retailer. If it is marketed as bread, then the baker intervenes between the wholesaler and retailer.

Cloth may pass through five middlemen between the mill and the consumer - (1.) the sales agent, (2.) broker, (3.) converter, (4.) wholesaler, and (5.) retailer. If it is made into garments before being sold to the consumer, other middlemen are involved.

7. More Than Five Middlemen

Many goods pass through the hands of more than five middlemen. This would be true of many manufactured goods if the middlemen handling the raw materials, semi-finished goods, and finished products were considered.

In the case of cotton dresses, for example, one, two, or three middlemen are involved in getting the cotton to the mill. The cloth may pass through the hands of one or two middlemen between the mill and the garment maker. The completed garment passes through the hands of one or two dealers on its way to the consumer. If the cotton is spun by a mill that does not weave, another middleman may be involved in getting the thread from the spinning to the weaving mill.

Even in the case of farm products, which do not have to be processed, six or seven middlemen are sometimes used in their distribution. Thus a shipment of Oklahoma eggs consumed in New York was found to have passed through seven middlemen - (1.) a local buyer, (2.) a country shipper, (3.) a car-lot shipper, (4.) a broker, (5.) a car-lot wholesaler, (6.) a jobber, and (7.) a retailer.

It should be noted that each of these dealers passed the eggs on toward the consumers. No sale was made in the same stage of distribution.

Variation in Routes

From the foregoing discussion it is evident that there is a considerable variation in the channels followed by the same product in reaching the market. For example, a Wisconsin cheese factory may sell to a local retail grocer while the cheese ordinarily passes through two middlemen before reaching the retail grocery located at a distance.

Shoes, to take another example, do not all follow the same channel. One manufacturer sells to the retailers, another sells to the wholesaler, while a

third operates his own retail stores and sells to retailers in towns where he has no stores.

And yet, in spite of this variation, there are certain channels which are typical for certain products.

Sales in the Same Stage of Distribution

Not only does merchandise ordinarily pass through the hands of several middlemen in being passed from the producer to the consumer, but sales are not infrequently made between middlemen in the same stage of distribution. Such sales do not get the goods any closer to the consumer.

Men familiar with any trade can tell of many such sales. Government and other reports often cite many instances of goods being sold and resold in the same stage of distribution. For example, a car of onions sold a dozen times without being unloaded. In the grain trade, such sales are known as "scalping."

Scalping

The Federal Trade Commission reported that from 5 1/2% to 9 1/2% of the grain received in Minneapolis during 1916-1917 was scalped. Some cars were scalped as often as four times.

Such speculative sales are generally thought to serve no good purpose. In fact, they are generally thought to be detrimental. During the World War, one of the objects of the United States Food Administration was to prevent such sales in the distribution of food stuffs.

Many economists argue that speculation on organized produce exchanges serves many useful purposes. A later lesson will be devoted to this question. Speculation on organized exchanges is one thing, but speculation outside the strict regulations of the exchanges is quite another thing.

Speculation Not Always Involved

Sales in the same stage of distribution are not always speculative. We are all familiar with the procedure of the retail grocer who receives an order for an article which is out of stock and sends his delivery boy across the street to buy it from another retailer.

Perhaps a more typical illustration is furnished by the wholesaler who expects to sell a thousand cases of canned tomatoes during the season and buys that quantity. The next spring he finds that he has a surplus of two hundred cases. He then notifies his broker who finds another wholesaler who is short of canned tomatoes and makes a sale.

A sale is made here between two wholesale grocers without any intention of speculating. If, however, the first grocer purposely overbought in anticipation of an increase in price, it would be a plain case of speculation.

SUPPOSE THERE WERE NO MIDDLEMEN

If you were a grain farmer of the Northwest, how could you get your grain to the cotton farmers of the South, the fruit growers of California, or the mill workers of the East without the middlemen?

Or to turn the question around, how could you secure hardware from Pittsburgh, clothes from New York, packing house products from Chicago, cotton from the South, beef from Texas, or pork from Iowa?

To ask such questions is to answer them - it simply could not be done except on a very limited scale. If we had no middlemen, farmers would have no market for goods which they could not sell in their immediate neighborhoods or by personal visits to nearby towns. Selling little, they could buy little as they would have little money. Also they could buy

only from other producers with whom they could come into personal contact.

A Return to Primitive Living Conditions

Such a situation would mean a return to living conditions more crude than those existing in the days of our great grandfathers. Each home would have to be practically independent of every other home. Each family would have to grow its own wool, flax, and cotton; card, spin, and weave the cloth; and make its own clothes.

It would have to make its own furniture, utensils, tools, implements, and vehicles, and very largely devise its own amusements. Even in the days of our great grandfathers, there were a small number of middlemen.

We Are Better Off Today

Most of us believe that we are better off today with our commercialized farming and factory-made goods than we were in the old days of ceaseless toil and little recreation. The middlemen may be inefficient, but they are a part of the system. We should strive to increase the efficiency of the middlemen rather than to abolish them.

Need More Study

It is only within the last few years that any serious study has been made of marketing by our universities and the various government departments. Marketing needs more study to get the facts and point to the way for improvements. When ways to improve conditions are found, we need the cooperation of the entire population to bring about the changes necessary to make the improvement.

THE HOW, WHY, WHEN, AND WHERE OF THE INDUSTRY

After you have mastered Lessons A and B, you have a general knowledge of the services performed in marketing, as well as a general knowledge of the men who perform these services.

You now want to get down to brass tacks. You want to know just how the marketing of this class of commodities in which you are specifically interested has developed. And so in the next lesson, you will be given a complete picture of this part of the marketing of farm products.

The next lesson is a picture of the industry, but in that picture you will find a great store of specific instruction.

You will learn How, and Why, and When, and Where.

You will learn what the other nations produce of this commodity; you will learn to whom they sell and to whom we sell.

You will learn from whom the various nations buy.

And you will learn the probable future of this part of the industry. That is exceedingly important, because <u>your</u> marketing work must necessarily be done in the future.

Will the present marketing system be in existence five years from now? If not, how is it likely to be changed?

Will the United States be producing as great a surplus as now? If not, how will that affect the profits of the industry?

These, and many other questions will be answered in a really fascinating manner in your next lesson.

GLOSSARY OF MARKETING TERMS USED IN THIS LESSON

Inasmuch as a glossary is provided with each lesson, no attempt is made either to give complete definitions in each glossary, or to give all the possible meanings of each term when used in different connections.

The definitions here given explain the meanings of the terms as applied to marketing farm products, and more specifically the meaning as used in this lesson.

It is difficult to find in dictionaries satisfactory definitions of many marketing terms as used in a commercial sense. In fact, it would be difficult to find a definition for some of these marketing phreses in any other place except in this glossary.

<u>board of trade,</u> As used in this lesson, this term refers to an organization formed to provide a place and rules of trading for its members who wish to buy and sell certain commodities.

<u>brand name,</u> A name used to designate the products manufactured or sold by one individual or concern under a name which is distinctive, such as Quaker Oats, Sunmaid Raisins, Sunkist Oranges.

<u>broker,</u> n. An agent who negotiates sales, either for the buyer or seller. In the strict sense of the term, only that man is a broker who does not actually own or have possession or control of the goods for which he is finding a buyer or a seller.

<u>car-lot shipper,</u> A man or concern that assembles products at local stations near to the territory where they are produced, into carloads and ships these carloads to a terminal market or place of consumption.

<u>car-lot wholesaler,</u> The same as car-lot receiver. A man or concern that buys products in car-lot quantities and resells either in car-lot quantities or less.

<u>chain store,</u> One of a series of retail stores owned by the same concern.

<u>cold storage plant,</u> A building equipped to store products at uniform temperature, usually 42 degrees Fahrenheit or less.

commission merchant, One who accepts goods for sale on consignment; the same as commission man.

consignment basis, This refers to the shipping of goods to a commission man who is instructed to sell the goods to the best advantage, and who is to receive a percentage of the sale price (a commission) in payment for his service.

converter, n. A man or concern that changes the form or condition of products to make them more acceptable for the use of the ultimate consumer. (In the textile trades a converter is one who has cloth dyed or printed.)

creamery, a. A factory where butter is made.

deciduous fruit, Fruit borne on trees that shed their leaves at the close of each producing season.

direct marketing, The sale by the producer to the ultimate consumer.

dispersing, n. That type of middleman service that helps to get the product from the wholesaler or manufacturer to the ultimate consumer; the opposite of assembling. To illustrate: Assembling means the bringing of smaller lots together to make larger quantities of more or less uniform quality. Dispersing means the breaking up of these larger quantities into smaller lots that are more convenient for purchase by jobbers, retailers, or ultimate consumers.

drayage companies, Companies engaged in transporting products within a restricted area either in horse-drawn vehicles or motor trucks.

exchange (or produce exchange), n. As used in this lesson, this term refers to an organization formed to provide a place and rules of trading for its members who wish to buy and sell certain commodities.

finished products, Products that have been processed or manufactured to put them in a form more valuable for use by ultimate consumers.

flat rate, A rate that is a specific amount to be charged for handling a specified quantity; the opposite of a rate based upon a percentage of the buying or selling price.

glut, n. A condition that sometimes occurs in a market, characterized by the presence of more of a

certain product that can be sold or consumed in the territory served by the market before some of it will spoil or more of the product will arrive for sale.

grading, n. The separating of products so that each lot is uniform in certain respects, such as size, color, quality, and degree of ripeness.

interstate, adj. Referring to action performed partly in one state and partly in another. Commonly used in connection with the word "transportation," to refer to the moving of products from one state to another.

interstate slaughtering house, A slaughtering house that sells at least a part of its products outside of the state in which it is located.

intrastate, adj. Referring to action performed within a single state; commonly used in connection with the moving of products from one location to another in the same state.

inland wholesaler, A wholesaler located in a town not considered to be a central market.

in transit, A term used to indicate that products are in the process of being moved from one place to another on any common carrier.

jobber, n. In the general mercantile field, a jobber is a wholesaler who handles a line of goods such as groceries, drugs, etc. In the agricultural marketing field, a jobber is one who handles farm products in less than carload lots as a rule, buying from the carlot receivers and selling to the retailers in amounts convenient for them.

mail order house, A business concern that secures its orders by mail without the aid of personal salesmen.

market reports, A list of prices paid for certain grades and classes of commodities. It may also include remarks describing the tendency of prices, sales, and supply, and the interest taken by buyers in the purchase of products during the time specified in the report.

mercantile field, A general term applying collectively to that part of business comprising the buying and selling of finished products.

mercantile broker, A broker who specializes in selling goods instead of stocks and bonds.

merchandising broker, A broker who also buys and sells goods on his own account.

middleman, n. An individual or agency performing some essential marketing service on products between the time they leave the farm or factory and the time they are bought by the ultimate consumer. In the strict sense of the term, a middleman is only an individual or agency that buys or sells commodities. But in a broader sense, such agencies as railroads that move products, and bankers who finance marketing are considered to be middlemen.

negotiate (a sale), n. The act of arranging with a buyer to purchase certain commodities.

principal, n. A man or concern whom a broker or other agent serves.

processor, n. A man or concern who changes the form or condition of products to make them more acceptable to consumers.

raw products, Products in their original state before their form has been changed by processing or manufacturing.

sales agent, n. A broker or agent who finds a buyer and negotiates a sale and who ordinarily has broader powers than the broker.

service costs, The charges paid to those who perform one or more of the essential marketing services: standardization, packing, assembling, storage, transportation, financing, risk-taking, selling, dividing or dispersing.

speculation, n. As used in this lesson, this refers to the buying or selling of articles by a man or concern without the intention of changing the form or location of the articles, but with the idea of taking the risk of falling prices in order to benefit by an expected rise in price.

spread, n. Commonly used in marketing to refer to the difference between the price received by the producer and that paid by the ultimate consumer, or between two middlemen who handle the commodity enroute. In a general sense, the term is used to indicate the difference between the price anyone pays for an article and the price for which they resell it.

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